J. Harris & Sons, Limited

ANNUAL REPORT 1973

J. HARRIS & SONS, LIMITED

FINANCIAL HIGHLIGHTS

	1973	1972
Revenue	**$20.4m**	$15.8m
Net Profits	**$1,331,561**	$282,968
Per Share	**$1.48**	$ .32
Cash Flow from Operations	**$1,609,048**	$402,993
Per Share	**$1.78**	$ .46
Working Capital	**$2,766,367**	$1,254,395
Shareholders Equity	**$3,367,182**	$2,107,222
Per Share	**$3.74**	$2.39

OFFICERS

Milton E. Harris *Chairman & President*
James Wilson *Vice President Marketing*
Glenn Riddell *Vice President of Manufacturing*
Bruce Timmerman, C.A. *Vice President of Finance*
Gordon Atlin, Q.C. *Secretary-Treasurer*

DIRECTORS

Gordon Atlin, Q.C. *Toronto, Ontario*
George Fells *Toronto, Ontario*
C. H. Franklin *Toronto, Ontario*
Joseph Godfrey *Toronto, Ontario*
Milton E. Harris *Toronto, Ontario*
Donald Resnick, C.A. *Toronto, Ontario*
Barrie Rose, C.A. *Toronto, Ontario*

AUDITORS Clarkson Gordon & Co.

SOLICITORS Atlin, Goldenberg & Co.

REGISTRAR AND TRANSFER AGENT
Guaranty Trust Company of Canada

BANKER Canadian Imperial Bank of Commerce

HEAD OFFICE Toronto

ADMINISTRATION OFFICES 318 Arvin Avenue,
Stoney Creek (Hamilton) Ontario L8E 2M2

Plants, Divisions and Subsidiary Companies

Fabrication and Supply	J. Harris & Sons, Limited
Saunders Form Hardware and Industrial Wire Products	Laurel Steel Products Limited
Concrete Post-tensioning and Steel Erection	VSL Canada Ltd. VSL Ltee.
Corporate Development	J. Harris & Sons Developments (Middlesex) Limited

Offices and/or plants are located in Toronto,
Stoney Creek (Hamilton), Windsor, London, Thunder Bay
and in Halifax, Nova Scotia.

FRONT COVER

An unusual angle shot of the new
Metro Tower in downtown Toronto
[CN TOWER]

Report to Shareholders

"In 1974 we anticipate another substantial increase in profits..."

Our Company made outstanding progress in all categories in 1973.

The reasons for the Company's success may be summarized as follows:

1) Whereas demand for our steel products has substantially increased both domestically and world-wide, supply in our markets has been hampered by production difficulties at the producer level. Your Company is in an extremely strong position with domestic steel producers, therefore we have been able to service our customers with steel in a time of extreme shortage.

2) We are continuing to show excellent improvement in our control and planning functions. This program has made a substantial contribution to our profitability in a period where accurate forward planning is essential.

3) The contribution from our post-tensioning subsidiary was due to an outstanding job by our people in completing the difficult Metro Tower Project in Toronto. The tallest concrete structure in the world presented challenges in innovative techniques for our Engineering and Construction staffs. The totally unique technical experience acquired on this project will stand our Company in excellent stead in the future.

The increase in value of inventory has not played a significant part in 1973's results. The effect on 1974 will be commented on below.

In last year's Report to Shareholders I mentioned an expansion program undertaken in 1973 to add new products to our lines. Due to the boom in machine tools, delivery of this machinery was 6-8 months late; consequently, the new products were not on stream until early December and made an insignificant contribution to profits in 1973.

OUTLOOK IS PROMISING

In 1974 we anticipate another substantial increase in profits as our present backlog of work exceeds our total 1973 volume and all products are in tremendous demand.

There is a severe shortage of steel in every market where your Company operates. As a result, while we are in an excellent standing with Canadian producers, we have been forced to purchase from American and overseas producers at double domestic prices, so that we can continue to service our customers in the face of overwhelming demand.

We are selling all wire products, including the new welded wire mesh, at complete plant capacity, for shipment across Canada and the U.S.

Demand for reinforcing steel (rebar) continues to increase. We have, therefore, invested approximately $350,000 in the first quarter of 1974 to expand the main fabricating operation in Stoney Creek, thereby adding 35% to capacity. We have installed the most modern automated fabricating equipment in the industry and are now operating this new equipment with computer assistance. In addition, we have considerably expanded capacity at our Windsor, London and Halifax shops by installation of new equipment.

As mentioned above, the 1973 year-end inventory market value was at least $2 million higher than cost. This will increase profits for the first quarter and into the second quarter.

SPIRALLING COSTS

The inflationary spiral in steel costs is accelerating at an ever-increasing pace. The main impetus to rising prices is an increasing preponderance of demand relative to supply in the world steel market, and unrestrained rise in the price of scrap iron. (Scrap prices are as

"Lack of resistance to galloping inflation is an unhealthy situation that will require careful management..."

much as three times as high as they were one year ago.) Scrap iron is 100% of the raw material charge to an electric-furnace steel producer and this increase in scrap costs is being passed along to the consumer in the form of scrap surcharges.

Although most of our backlog of contracts contain an escalation clause which passes on increased costs to our customers, approximately 30% of these contracts are at firm prices. This firm-priced portion of our backlog is covered by our present inventory.

The ability of scrap iron sellers, steel producers, and fabricators such as ourselves, to pass along rapidly-escalating material costs to the user of our product, who will eventually pass them on to the final consumer, has snowballed into our present inflationary environment where nobody in the chain, except the final consumer, has to pay the inflation cost. The consequent lack of resistance to "galloping inflation" is an unhealthy situation which will require careful management of all our Company's activities in 1974.

INCREASED CASH FLOW

All in all, 1974 should be a year when profits will reach a level which are unlikely to be sustained in subsequent years, based solely on the present Harris operations. There should be a marked increase in the Company's financial strength throughout 1974 and we should end the year with a very substantial amount of cash available for investment or acquisition.

It is, therefore, incumbent on your Company's Management to use these additional funds to broaden the Company's earnings base so that we can attain a continuance of increased earnings in future years.

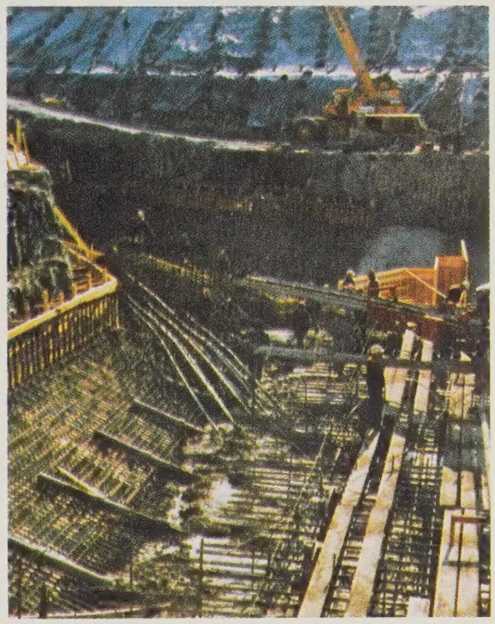
At the beginning of the year, your Board of Directors appointed two new Vice-Presidents. Our Company now has three Vice-Presidents. This is in recognition of the upward thrust of the Company's activities and the challenges we have planned for 1974 and future years. The entire staff contributed to our outstanding success in 1973, and on behalf of the Board, I would like to thank all members of the Harris team for their effective efforts.

M.E. Harris

Milton E. Harris,
President and Chairman.

J. HARRIS & SONS, LIMITED

PROJECTS & PRODUCTS



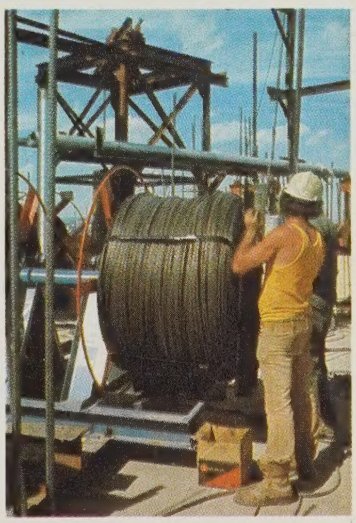
As a major supplier, manufacturer and sub-contractor in the industrial construction field, J. Harris & Sons provides specialized products and services for a wide range of projects.

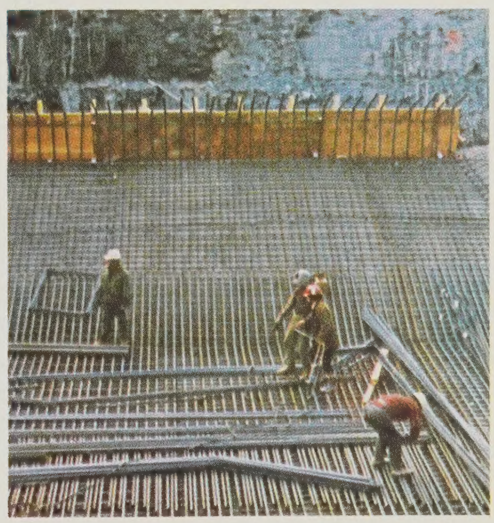
Reinforced steel rods are a mainstay (both fabrication and erection) and thousands of these rods are buried in concrete at major installation sites.

J. Harris also manufactures steel bar supports and other metal form items used in building. Another subsidiary, based at the company's headquarters in Stoney Creek, Ontario, designs and installs a post-tensioning system that has been successfully applied in many commercial applications, including the CN Tower in Toronto.

In recent years the company has become increasingly involved in the manufacture and distribution of industrial wire products. New product lines have been added in this division, as well as increased producton facilities, with the result that impressive growth seems likely to continue.

During 1974 the reinforced steel plant at Stoney Creek was expanded by 15,000 feet, and new equipment was added so that total capacity was increased by 35%.





J. HARRIS & SONS, LIMITED
(Incorporated under the laws of Ontario)
and its subsidiary companies

CONSOLIDATED BALANCE SHEET

ASSETS

	1973	1972
CURRENT ASSETS:		
Accounts receivable	$ 4,006,332	$ 3,859,789
Inventories of raw materials and work-in-progress, valued at the lower of cost or net realizable value (note 4)	2,811,297	1,093,077
Due from officer		9,330
Prepaid expenses and deposits	29,323	21,438
Mortgage receivable due within one year	47,069	
Total current assets	6,894,021	4,983,634
INVESTMENTS:		
Shares in another company, at cost (no quoted market value)	28,500	28,500
Mortgage, at cost		48,277
	28,500	76,777
FIXED ASSETS, at cost (note 5):		
Land	71,674	71,674
Buildings	279,662	246,211
Machinery and equipment	2,178,095	2,075,495
	2,529,431	2,393,380
Less accumulated depreciation	1,230,729	1,455,583
	1,298,702	937,797
OTHER ASSETS:		
Goodwill, at cost	50,000	50,000
	$ 8,271,223	$ 6,048,208

AUDITOR'S REPORT

To the Shareholders of J. Harris & Sons, Limited:

We have examined the consolidated balance sheet of J. Harris & Sons, Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of profit and loss and retained earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated financial statements present fairly the financial position of the companies as at December 31, 1973, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 10, 1974.

CLARKSON, GORDON & CO.
Chartered Accountants

DECEMBER 31, 1973
(with comparative figures at December 16, 1972)

LIABILITIES

	1973	1972
CURRENT LIABILITIES:		
Bank indebtedness (secured)	$ 582,082	$ 1,270,836
Accounts payable and accrued charges	2,172,208	1,954,328
Due to director		20,334
Income and other taxes payable	1,123,204	279,275
Deferred income taxes—current portion	144,897	142,379
Dividends payable		22,145
Long term debt due within one year	105,263	39,942
Total current liabilities	4,127,654	3,729,239
DEFERRED INCOME TAXES	184,282	134,000
LONG TERM DEBT:		
Term bank loan, due June 30, 1980 (certain fixed assets pledged as security)	697,368	
8% mortgage, due October 1, 1975		117,689
	697,368	117,689
Less amounts due within one year included with current liabilities	105,263	39,942
	592,105	77,747
SHAREHOLDERS' EQUITY:		
Capital (note 2)—		
Authorized:		
2,000,000 shares without par value		
Issued:		
899,550 shares	411,214	377,451
Retained earnings	2,955,968	1,729,771
	3,367,182	2,107,222
	$ 8,271,223	$ 6,048,208

On behalf of the Board:

Director

Director

(See attached notes)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	1973 (note 1)	1972
SALES	$20,431,985	$15,794,397
PROFIT BEFORE THE FOLLOWING	$ 2,726,934	$ 667,681
DEDUCT:		
Depreciation	227,205	192,724
Interest on long term debt	45,968	10,589
	273,173	203,313
PROFIT BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	2,453,761	464,368
INCOME TAXES	1,122,200	221,000
NET PROFIT BEFORE EXTRAORDINARY ITEM	1,331,561	243,368
EXTRAORDINARY ITEM:		
Income tax reductions resulting from the carry-forward of losses in prior periods		39,600
NET PROFIT FOR THE YEAR	$ 1,331,561	$ 282,968
EARNINGS PER SHARE (note):		
Net profit before extraordinary item	$1.48	$0.27
Net profit for the year	$1.48	$0.32

NOTE: The calculation of earnings per share is based on the weighted average number of shares outstanding during the period. The exercise of stock options referred to in note 2 would not result in any material dilution of earnings per share. (See attached notes)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1973 (note 1)	1972
RETAINED EARNINGS, beginning of year	$ 1,729,771	$ 1,550,764
NET PROFIT FOR THE YEAR	1,331,561	282,968
	3,061,332	1,833,732
DEDUCT:		
Tax exempt dividends declared during year	89,559	88,367
Special taxes paid by company relating to tax exempt dividends	15,805	15,594
RETAINED EARNINGS, end of year	105,364	103,961
	$ 2,955,968	$ 1,729,771

(See attached notes)

YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	1973 (note 1)	1972
SOURCE OF FUNDS:		
Net profit for the year	$ 1,331,561	$ 282,968
Charges (credits) to operations not involving an outlay (receipt) of funds—		
Depreciation	227,205	192,724
Deferred income tax (reductions)	50,282	(72,699)
Funds derived from operations	1,609,048	402,993
Decrease in mortgage receivable—non current portion	48,277	637
Proceeds from issue of shares	33,763	28,500
Proceeds of term loan (net of amounts repaid during the year	697,368	
	2,388,456	432,130
APPLICATION OF FUNDS:		
Additions to fixed assets (net)	588,110	204,003
Dividends declared and special taxes related thereto	105,364	103,961
Repayment of mortgage payable—non current portion	77,747	
Current portion of term loan	105,263	39,942
	876,484	347,906
Increase in working capital	1,511,972	84,224
Working capital, beginning of year	1,254,395	1,170,171
Working capital, end of year	$ 2,766,367	$ 1,254,395

(See attached notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. **Change of fiscal year end**
The company and its subsidiary companies changed their fiscal year end from the third Saturday in the month of December to December 31. This change did not materially affect the earnings for the year as compared with the preceding year.

2. **Capital stock**
During the year 13,750 shares were issued for cash of $33,763 under the terms of employee stock option plans. The options outstanding at December 31, 1973 were 3,000 shares at $1.35 per share to September 9, 1975 and 10,000 shares at $3.00 per share commencing July 1, 1974 and terminating June 30, 1979 on the basis of 2,000 shares per year.

3. **Remuneration of directors and senior officers**
Remuneration of directors and senior officers of the company as defined by The Ontario Business Corporations Act (1970) for the period ended December 31, 1973 including profit sharing bonuses, amounted to $359,146 (of which $4,500 is directors fees).

4. **Inventories**
Inventories consisted of the following:

	1973	1972
Raw materials	$2,612,321	$ 963,880
Work-in-progress	65,450	56,346
Finished goods	133,526	72,851
	$2,811,297	$1,093,077

5. **Fixed assets**
The company depreciates its buildings, machinery and equipment on a straight line basis and its mobile equipment on a declining balance basis at the following rates:

Buildings	10%
Machinery and equipment	10%
Mobile equipment	30%

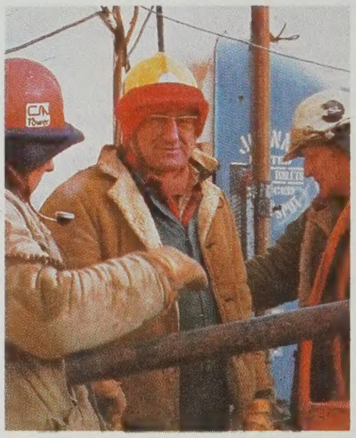
During the year the company disposed of certain obsolete construction equipment with an original cost of $477,000. This disposal resulted in a charge against earnings for the year of $44,000.

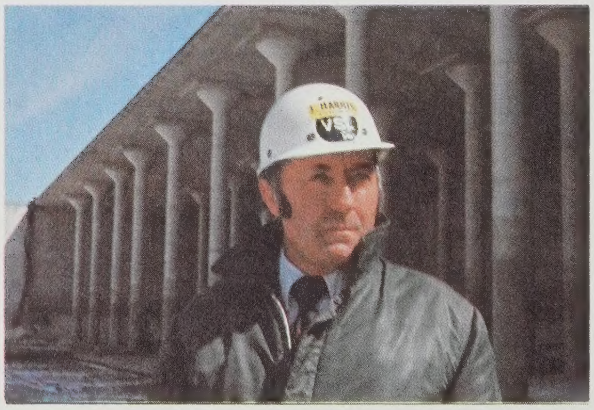
HARRIS PEOPLE

The management team at J. Harris & Sons (left to right, above) includes Bruce Timmerman, Vice President of Finance; Bert Baradziej, Manager of Sales; Ernie Neiser, Manager of Erections, and Jim Wilson, Vice President of Marketing.

The company has 400 to 450 employees (some seasonal) including a skilled technical staff of professional engineers and quantity surveyors.

As part of its operations, J. Harris has computerized its accounting and production control procedures with an in-house technical staff.



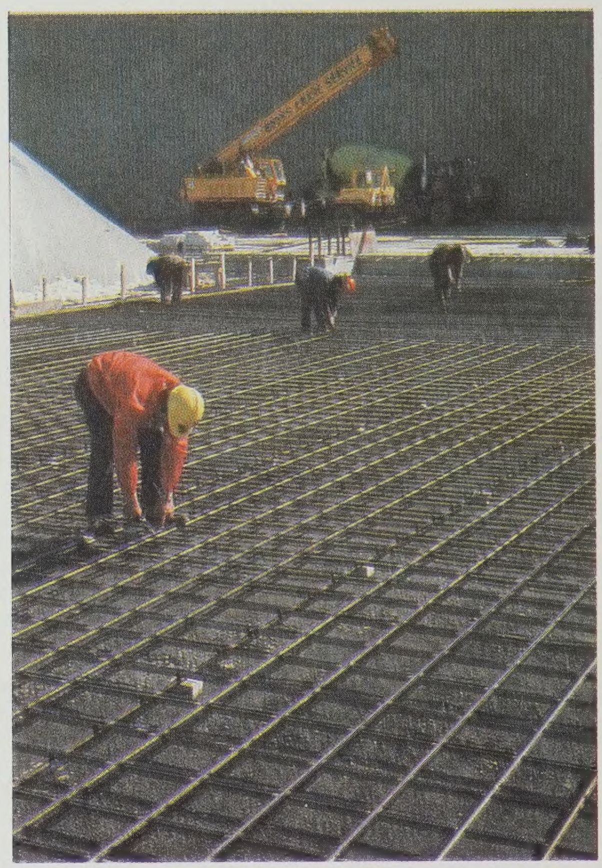


J. HARRIS & SONS, LIMITED

FINANCIAL SUMMARY

	1973	1972	1971	1970	1969
Revenue	$20.4m	15.8m	14.6m	13.0m	13.7m
Profits	$1.3m	282,968	234,822	188,646	94,033
Per Share (A)	$1.48	32.1¢	26.9¢	21.6¢	10.8¢
Funds Provided	$1.6m	402,993	380,996	319,750	381,044
Per Share (A)	$1.80	45.7¢	43.6¢	36.6¢	43.6¢
Dividends (A)	12¢	10¢	—	3.1¢	12.3¢
Effective Tax Rate (including deferred)	46%	48%	46%	55%	45%
Financial:					
Assets	$8.3m	6.04m	6.2m	5.9m	6.4m
Long-term debt	$697,368	117,689	154,618	188,761	240,799
Current Assets	$6,894,021	4,983,634	5,191,477	4,720,160	5,071,427
Current Liabilities	$4,127,654	3,729,239	4,021,306	3,836,346	4,399,853
Working Capital	2,766,367	1,254,395	1,170,171	883,814	671,574
Current Ratio	1.7:1	1.3:1	1.3:1	1.2:1	1.1:1
% Inventory to Current Assets	34%	22%	33%	23%	32%
Capitalization:					
Common shares	$411,214	377,451	348,951	348,951	348,951
Retained earnings	$2,955,968	1,729,771	1,550,764	1,315,942	1,154,602
Shareholders Equity	$3,367,182	2,107,222	1,889,715	1,664,893	1,503,553
Per Share (A)	$3.74	2.39	2.18	1.91	1.72

A — Based on average number of shares outstanding.



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